

TABLE 2. HIGHWAY TRUST FUND AUTHORIZATIONS, RECEIPTS, OUTLAYS, AND BALANCES (In millions of dollars)

Fiscal Year	Authorizations ^{a/}			Trust Fund Receipts	Outlays	Cash Balance
	Interstate	Non-Interstate	Total			
1957	1,000	155	1,155 ^{b/}	1,482	966	516
1958	1,700	880	2,580	2,044	1,511	1,049
1959	2,200	1,305	3,505	2,088	2,613	523
1960	2,500	933	3,433	2,536	2,940	119
1961	1,800	955	2,755	2,799	2,619	299
1962	2,200	958	3,158	2,955	2,784	471
1963	2,400	955	3,355	3,293	3,017	747
1964	2,600	980	3,580	3,540	3,645	641
1965	2,700	1,005	3,705	3,670	4,026	285
1966	2,800	1,030	3,830	3,924	3,965	244
1967	3,000	1,050	4,050	4,455	3,974	725
1968	3,400	1,050	4,450	4,427	4,171	982
1969	3,800	1,050	4,850	4,690	4,151	1,521
1970	4,000	1,575	5,575	5,469	4,378	2,612
1971	4,000	1,653	5,653	5,725	4,685	3,652
1972	4,055	1,917	5,972	5,528	4,690	4,490
1973	4,055	2,064	6,119	5,912	4,811	5,591
1974	2,650	3,016	5,666	6,675	4,599	7,667
1975	3,050	3,546	6,596	6,774	4,844	9,597
1976	3,050	3,964	7,014	6,000	6,520	9,077
TQ	^{c/}	^{c/}	1,710	1,689	1,758	9,009
1977	3,250	3,699	6,949	7,302	6,147	10,164
1978	3,550	3,590	7,140	7,567	6,058	11,673
1979	3,600	4,833	8,433	8,046	7,155	12,564
1980	3,800	5,247	9,047	7,647	9,212	10,909
1981	3,900	5,623	9,523	7,434	9,174	9,259
1982	3,900	4,891	8,540	7,786	8,024	9,021
1983	---	---	---	7,893 ^{d/}	8,237 ^{d/}	8,677 ^{d/}

- Interstate authorizations have typically been made available to the states (apportioned) one year or more in advance of the year in which they were authorized.
- In addition, \$1,105 million of unpaid authorizations from earlier years were also financed from the Highway Trust Fund.
- For the Transition Quarter (July 1 to September 30, 1976) funds were not allocated between Interstate and non-Interstate programs.
- Estimated.

TABLE 3. SUMMARY MEASURES OF FINANCIAL CONDITION OF HIGHWAY TRUST FUND (In millions of dollars)

Fiscal Year	Cash Balance at Start of Year	Receipts	Outlays	Change in Cash Balance	Cash Balance at End of Year	Unpaid Authorizations at End of Year	Unfunded Authorizations at End of Year	Years of Overhang
1957	0	1,482	966	516	516	4,702	4,186	2.05
1958	516	2,044	1,511	533	1,049	6,769	5,720	2.74
1959	1,049	2,087	2,613	(526)	523	7,562	7,039	2.78
1960	523	2,536	2,940	(404)	119	7,300	7,181	2.57
1961	119	2,799	2,619	180	299	7,764	7,465	2.53
1962	299	2,956	2,784	172	471	8,309	7,838	2.38
1963	471	3,293	3,017	276	747	8,866	8,119	2.29
1964	747	3,539	3,645	(106)	641	8,978	8,337	2.27
1965	641	3,670	4,026	(356)	285	8,775	8,490	2.16
1966	285	3,924	3,965	(41)	244	8,856	8,612	1.93
1967	244	4,455	3,974	481	725	9,332	8,607	1.94
1968	725	4,428	4,171	257	982	10,011	9,029	1.93
1969	982	4,690	4,151	539	1,521	11,435	9,914	1.81
1970	1,521	5,469	4,378	1,091	2,612	12,710	10,098	1.76

(Continued)

TABLE 3. (Continued)

Fiscal Year	Cash Balance at Start of Year	Receipts	Outlays	Change in Cash Balance	Cash Balance at End of Year	Unpaid Authorizations at End of Year	Unfunded Authorizations at End of Year	Years of Overhang
1971	2,612	5,725	4,685	1,040	3,652	13,950	10,298	1.86
1972	3,652	5,528	4,690	838	4,490	15,273	10,783	1.82
1973	4,490	5,912	4,811	1,101	5,591	10,462 <u>a/</u>	4,871 <u>a/</u>	0.73 <u>a/</u>
1974	5,591	6,675	4,599	2,076	7,667	17,783	10,116	1.49
1975	7,667	6,774	4,844	1,930	9,597	19,671	10,074	1.68
1976	9,597	6,000	6,520	(520)	9,077	N/A	N/A	N/A
T.Q.	9,077	1,690	1,758	(68)	9,009	16,098	7,089	0.97
1977	9,009	7,302	6,147	1,155	10,164	17,026	6,862	0.91
1978	10,164	7,567	6,058	1,509	11,673	18,035	6,362	0.79
1979	11,673	8,046	7,155	891	12,564	19,000	6,436	0.84
1980	12,564	7,647	9,212	(1,565)	10,909	18,876	7,967	1.07
1981	10,909	7,434	9,174	(1,740)	9,259	18,914	9,655	1.26
1982	9,259	7,786	8,024	(238)	9,021	19,258	10,237	1.30
1983 <u>b/</u>	9,021	7,893	8,237	(344)	8,677	16,602 <u>c/</u>	7,925 <u>c/</u>	1.00 <u>c/</u>

a. Anomalies caused by a change in the date when highway funds were apportioned.

b. Estimates.

c. Based on partial-year authorizations for non-Interstate programs as approved by the Congress in order to avoid imposition of the Byrd Amendment.

The First Decade

Over its first ten years, the cash balance in the trust fund averaged under \$500 million. This "cash cushion" was quite modest, equal to only about two months of outlays. In large part, this was due to the relatively modest level of taxes paid into the trust fund starting in 1957 and to the relatively high level of authorizations contained in the early bills. The imbalance was partly intentional, since the highway bill originally assumed a deficit condition during most of the 1960s. The passage of the Byrd Amendment forced the Congress to alter this plan, and accordingly it increased highway taxes or switched existing taxes into the Highway Trust Fund in 1959, 1961, 1965. Also, over time, the number of exemptions from highway taxes has grown, reducing tax receipts by almost 10 percent. ^{10/}

In these early years, the typical overhang was between two and three years. This is not surprising given the high level of authorizations for the Interstate system as the Congress attempted to complete it as quickly as possible. The low cash balance, in turn, meant that future revenues were expected to finance current highway authorizations.

The Period of a Growing Cash Balance

Developments were quite different in the 13-year period from 1967 through 1979. The cash balance grew in every year but one (1976) and totalled \$12.6 billion by the end of 1979. Several factors appear to explain this shift. First, the Congress increased highway taxes in 1959 and 1961 and revenues were bolstered further by the steady growth in auto and truck traffic during the 1960s and early 1970s. Second, outlays were held down by Presidential impoundments in the early 1970s. Third, from 1973 until 1978 the trust fund extended for only one year beyond the last year of full authorization. This meant that, to avoid imposition of the Byrd Amendment, total apportionments could not exceed the cash balance by more than one year's worth of trust fund revenue--that is, the number of years of overhang had to be one or less. Given Congressional reluctance to raise highway taxes, a limitation on program growth became the only means to meet the Byrd Amendment targets. Further, as the cash balance in the fund has grown, so has the interest earned on the balance, increasing revenues even further. In fact, interest is now second only to the gasoline tax as a source of revenue for the fund.

Between 1967 and 1979, the cash balance averaged \$6.2 billion, providing a cushion equal to 15 months of outlays--a sharp contrast with only two months of cushion in the first ten years of the fund. After 1973, the fund had more than enough cash on hand to pay the next year's outlays (of course tax receipts from future years were still needed to cover outlays

10. For 1985, this reduction is estimated to total \$760 million.

beyond the next year). Overhang dropped steadily to less than one year, compared with the more than two-year overhang during the first decade.

Most Recent Years

Since 1979, the cash balance in the trust fund has dropped from \$12.6 billion to \$9.0 billion and the number of years of overhang has increased from 0.8 to 1.3. (The current level of overhang is still less than the two years permitted by the Congress in 1978.) This reversal in the earlier trend appears to be caused by two factors. First, in 1978 the Congress increased the overlap between trust fund revenues and program authorizations by an additional year. This change accommodated an increase in authorizations that was reflected in higher outlays starting in 1979 and 1980. Second, revenues have stagnated because of greatly improved fuel efficiency and a generally weak economy.

EXISTING MECHANISMS FOR CONTROL

The Congress currently has three ways of controlling the level of highway spending once authorizations have been made. These are the Byrd Amendment, the Section 302 allocation procedure that is part of the Congressional budget process, and a statutory limit on the annual level of highway obligations. Each of these is discussed briefly below.

The Byrd Amendment

Part of the original legislation that established the Highway Trust Fund was added by Senator Byrd when the bill was under consideration by the Senate Finance Committee. This provision, known as the Byrd Amendment, includes the requirement that:

If the Secretary of the Treasury determines that, after all other expenditures required to be made from the Trust Fund have been defrayed, the amounts which will be available in the Trust Fund (excluding repayable advances) will be insufficient to defray the expenditures which will be required as a result of the apportionment to the States of the amounts authorized to be appropriated from the Trust Fund for any fiscal year--

(A) he shall so advise the Secretary of Transportation, and

(B) he shall further advise the Secretary of Transportation as to the amount which, after all other expenditures required to be made from the Trust Fund have been defrayed, will be available in the Trust Fund (excluding repayable advances) to

defray the expenditures required as a result of the apportionment to the States for such fiscal year. 11/

This limitation was added to the 1956 act to ensure that the Highway Trust Fund would not go into deficit. The act also contained a statement of policy that required the following balance between receipts and expenditures:

It is hereby declared to be the policy of the Congress that if it hereafter appears--

(1) that the total receipts of the Trust Fund (exclusive of advances under subsection (d)) will be less than the total expenditures from such Fund (exclusive of repayments of such advances); or

(2) that the distribution of the tax burden among the various classes of persons using the Federal-aid highways, or otherwise deriving benefits from such highways, is not equitable, the Congress shall enact legislation in order to bring about a balance of total receipts and total expenditures, or such equitable distribution, as the case may be. 12/

Together, these two provisions have generally been interpreted to mean that highway funds cannot be apportioned to the states unless the revenues projected to be raised from highway user fees will be sufficient to cover them. As long as the Highway Trust Fund maintains a large cash balance, as it has in recent years, the Byrd Amendment is likely to be triggered only when the taxes feeding the Highway Trust Fund come within two years or so of expiring. At that point, if projected receipts appear inadequate to cover the additional apportionments, the apportionments must be scaled back to fit available revenues. For example, as of September 30, 1982, the Highway Trust Fund had \$9.0 billion in cash and \$19.3 billion in unpaid authorizations, leaving a difference of \$10.3 billion in unfunded authorizations. To offset these unfunded authorizations, trust fund revenues from user fees and interest on the cash balance are projected to yield \$7.8 billion in fiscal year 1983 and \$9.2 billion in 1984, 13/ for a total of \$17.0 billion more in revenue--\$6.8 billion more than the \$10.2 billion in unfunded authorizations. Thus, existing taxes could only fund up to

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11. Section 209(g)(2) of the Highway Revenue Act of 1956, including technical amendments made in 1978.
 12. Section 209b of the Highway Revenue Act of 1956.
 13. This includes funds from taxes that would be assessed in 1984 but not actually received by the Treasury until early 1985.

\$6.8 billion in programs in 1983 without violating the Byrd Amendment. The Congress used most of this in October, when, it approved \$5.1 in highway authorizations for 1983.

In brief, this means that because of the substantial cash balance now accumulated in the Highway Trust Fund, the Byrd Amendment will never be triggered (to force a reduction in apportionments) before the last two or three years for which highway user fees have been extended. As highway taxes approach their expiration date, the Byrd Amendment limits apportionments to fit within projected tax revenues. Although the Byrd Amendment generally plays its most critical role in the final year of apportionment, it nonetheless can have a constraining influence on the overall level of authorizations provided in a multiyear bill.

The influence of the Byrd Amendment thus depends on the period for which highway taxes have been extended. If taxes have one or two years to run, the Byrd Amendment strongly controls all apportionments and the authorizing committees have very little freedom to adjust authorizations; if taxes are to run for a long period of time (to the year 2000, for example), the Byrd Amendment will play a critical role only in the final year or two of apportionments. For the Byrd Amendment to be a controlling factor, the cash balance must be at a low level as it was during the early years of the fund.

In addition, the Byrd Amendment has been interpreted to require that the Highway Trust Fund not carry any short-run deficit, even if projected revenues will eventually cover outlays. The Congress voted to suspend the Byrd Amendment in 1959 and 1960 when it appeared that the trust fund would run a short-run deficit, even though this did not represent an inadequacy in the long-run ability of the fund to generate sufficient revenues to cover outlays. At that point, highway taxes had been enacted covering 16 years into the future, and there was no question that there would ultimately be enough revenue to pay all 13 years of apportionments. Because the Byrd Amendment was interpreted to exclude any deficit in the Highway Trust Fund, it was temporarily suspended. Since the fund now has a large cash balance, this interpretation should not apply over the next several years.

Budget Act Controls

Through the reconciliation process established under Section 302 of the Budget Impoundment and Control Act of 1974 the Public Works Committees, as well as all the other committees that create budget authority, may be directed by the Congress to reduce budget authority by specified amounts. In the case of the Public Works Committees such reductions are usually restricted to cuts in highways or airports or to increases in offsetting receipts.

Annual Obligation Ceilings

Obligation ceilings are another budgetary device for controlling highway spending, which the Congress has employed in every fiscal year since 1975. Under this device, the Congress sets a limit on the total amount that can be obligated in a year. (It will be recalled that each state can obligate apportioned funds over a multiyear period according to program provisions. Thus, in any particular fiscal year, a state might be able to obligate funds from several fiscal years.) When the Congress enacts an obligation ceiling, it is distributed roughly proportionally among the states, resulting in a limit on the obligational authority permitted to each. Obligation ceilings were originally enacted as a means of preventing surges in obligations (and thus surges in outlays) such as occurred in the early 1970s when Presidential impoundments were released. In recent years, obligation ceilings have also been used to control the overall level of highway spending.

While they are still a crude method of limiting outlays, obligation ceilings offer more fine-tuned control than does the Byrd Amendment. Because obligations are typically made about one and one half years before cash outlays, controls on obligations have more direct and predictable impacts on cash requirements. By contrast, the Byrd Amendment restricts apportionments, which typically occur about two and one half years before outlays. Because it serves only the purpose for which it was created, namely guarding against deficits in the Highway Trust Fund, the Byrd Amendment is not as effective a method of budgetary control as are obligation ceilings.

While obligation ceilings are the only means by which the Congress can control existing highway authorizations short of a rescission, they conflict with authorizing legislation if enacted recurringly. In other words, while the apportionments made under authorizing legislation grant the states the authority to obligate certain sums, the total of these sums can be restricted by obligation ceilings.

FINANCIAL OPTIONS FOR THE COMING FOUR YEARS

Because highway revenues have been relatively static in recent years and will continue to be so under present legislation, the cost of keeping the nation's highways physically and functionally adequate will increasingly exceed the revenues available under existing law. Sooner or later the Congress will need to make more funds available. In the next few years, highway financing practices could move in either of two directions: additional highway user fees could be enacted to finance increased federal spending on highways, as proposed under H. R. 6211, or the cash balance in the Highway Trust Fund could be drawn upon as implied by S. 2579. While other courses of action are possible, these two reflect the most probable ways of coming to terms with current financial pressures. Accordingly, this paper concludes by sketching briefly how the current financial controls on

the Highway Trust Fund would operate in each of these situations. The discussion focuses on two illustrative authorization bills:

1. The \$54 billion, four-year highway program reported by the House Public Works Committee, together with passage of the four-cent-per-gallon tax on motor fuels (or equivalent) proposed by Secretary of Transportation Drew Lewis. 14/
2. The Senate's \$38 billion, four-year highway proposal, which increases highway program levels so that the balance of the Trust Fund would be drawn down to \$4.1 billion at the end of 1986.

Numerous variations of the two approaches are possible.

The House Approach: Increased Program; Increased User Fees

The bill proposed by the House Committee on Public Works and Transportation in 1982 illustrates how the Highway Trust Fund would function if both taxes and spending were increased by roughly equal amounts. Under this proposal, annual authorizations from the Highway Trust Fund would grow from \$12.58 billion in fiscal year 1983 to \$14.58 billion in fiscal year 1986, representing an average increase of \$5.0 billion relative to the 1982 authorization of \$8.5 billion. The House bill also proposes an increase in highway user fees equivalent to an increase of 5 cents per gallon in the tax on motor fuels. Of this increase, 80 percent of the proceeds, or about \$4.4 billion annually, would go to highway programs.

Allowing for normal delays in outlay rates (and assuming no limitation from obligation ceilings) the balance in the Highway Trust Fund would grow substantially--from \$9.0 billion at the start of fiscal year 1982 to \$14.4 billion at the end of fiscal year 1986. Over the same period, unpaid authorizations (apportioned funds not yet outlaid) would grow from \$19.3 billion to \$27.5 billion. This means that unpaid authorizations at the end of fiscal year 1986 would exceed the cash balance in the Highway Trust Fund by \$13.1 billion--equivalent to about one year of revenue, assuming the higher taxes included in the House proposal (Table 4). Also, if the tax

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14. As proposed, this tax would raise the same amount of revenue as would a 5-cent-per-gallon increase in the tax on motor fuel. Of this, one cent per gallon would be reserved for capital grants for transit, leaving the equivalent of four cents per gallon as an increase in highway revenues. As this is written the exact form of the tax is unspecified. Rather, specific rates for motor fuels, truck excise taxes, and use of heavy trucks would be developed later in such a way that the taxes levied on each group of highway users would be equitable.

TABLE 4. THE HIGHWAY TRUST FUND UNDER THE HOUSE PROPOSAL (In millions of dollars)

Fiscal Year	Authorizations <u>a/</u>	Outlays <u>b/</u>	Trust Fund Receipts <u>c/</u>	Cash Balance End of Year	Unfunded Authorizations	Years of Cushion (cash balance divided by next year's outlays)	Overhang <u>d/</u>
1982	---	8,020	7,790	9,020	10,240	1.0	0.9
1983	12,580	8,920	12,180	12,280	10,640	1.1	0.8
1984	13,050	11,280	12,860	13,860	10,830	1.1	0.8
1985	13,650	12,340	12,960	14,480	11,520	1.1	0.9
1986	14,580	13,090	13,010	14,400	13,090 <u>e/</u>	1.0	1.0

NOTE: These calculations assume the program became effective October 1, 1982.

- a. Total authorizations from the trust fund including programs already enacted into law.
- b. Estimated by the Congressional Budget Office on the assumption that obligations equal authorizations.
- c. Based on Treasury forecast of tax receipts with a four-cent-per-gallon increase in the motor fuels tax and on the Congressional Budget Office estimate of interest rates.
- d. Unfunded authorizations divided by next year's receipts.
- e. The amount of revenues required after 1986.

writing committees limited the duration of future revenues to slightly more than one year, the authorizing committees would have very little freedom to increase authorizations through 1986 without concurrent action by the tax committees. At the end of fiscal year 1982, unfunded authorizations exceeded the cash balance by an amount equivalent to 1.3 years of revenue (at current tax rates). Thus, the degree to which highway finance depends upon future revenues would actually diminish somewhat under the House proposal, and the current two-year overhang could be reduced substantially.

Overall, the House proposal would keep the Highway Trust Fund in strong financial condition. While the cash balance would increase by over \$5 billion, this essentially represents a continuation of the current situation. Indeed, allowing for continued inflation and increases in authorizations, the cash balance at the end of fiscal year 1986 would still be able to support about one year of program authorizations, just as at present. The Highway Trust Fund would remain in sound financial condition, maintain adequate cash reserves to cover possible contingencies, and, because of the large cash balance, be capable of sustaining itself for some time if the authorizations and tax rates enacted for fiscal year 1986 were continued thereafter.

The Senate Approach: Drawing Down the Cash Balance

During 1982, the Senate Committee on Environment and Public Works reported a bill that would have authorized modest increases in highway programs during the next four years, growing from \$8.71 billion in fiscal year 1983 to \$10.25 billion in 1986. Such a four-year program could be financed without an increase in highway taxes by drawing down the balance in the Highway Trust Fund. This approach would leave the Highway Trust Fund with a balance of about \$4.6 billion at the end of 1986 (Table 5). Relative to current conditions, this would represent a substantial shift. Although the \$4.6 billion balance would be sufficient to cover most contingencies, such as an error in predicting revenues or outlays, it would nonetheless be only half the current balance. Relative to outlays in 1986, the cash in the Highway Trust Fund could finance less than one half year of spending as against the current cushion of one year. The dependence upon future revenues would grow as well: by the end of fiscal year 1986 under this approach, the trust fund would need 2.2 years of receipts to pay off its unfunded authorizations, up from the current value of 1.3 years. Most important, the authorizations of the Senate bill could not be sustained very long without increasing taxes. If the 1986 authorizations of \$10.25 billion continued in 1987 and after, the balance in the Highway Trust Fund would fall to around \$2.5 billion at the end of 1987. By the end of 1988, the Congress would be forced to increase highway taxes or reduce the authorizations: the Highway Trust Fund would be out of cash. While no one has proposed such a future course of action, this example illustrates the risk inherent in drawing down the cash balance in the fund. This approach would be feasible for a few years but could not be sustained indefinitely.

TABLE 5. THE HIGHWAY TRUST FUND UNDER THE SENATE PROPOSAL (In millions of dollars)

Fiscal Year	Authorizations <u>a/</u>	Outlays <u>b/</u>	Trust Fund Receipts <u>c/</u>	Cash Balance End of Year	Unfunded Authorizations	Years of Cushion (cash balance divided by next year's outlays)	Overhang <u>d/</u>
1982	---	8,020	7,790	9,020	10,240	1.1	1.3
1983	8,710	8,260	7,820	8,580	11,130	1.0	1.4
1984	9,800	8,740	8,010	7,850	12,920	0.8	1.6
1985	9,800	9,410	7,950	6,390	14,770	0.7	1.9
1986	10,250	9,710	7,920	4,600	17,100 <u>e/</u>	0.5	2.2

NOTE: These calculations assume the program became effective October 1, 1983.

- a. Total authorizations from the Highway Trust Fund including certain programs already enacted into law and programs (such as safety grants) under the jurisdiction of other committees.
- b. Estimated by the Congressional Budget Office.
- c. Based on Treasury forecast of tax receipts and on the Congressional Budget Office estimate of interest rates.
- d. Unfunded authorizations divided by next year's receipts.
- e. The amount of revenues required after 1986.

Conclusion

Increased highway authorizations must be paid for, sooner or later, by increased highway user taxes. If taxes and outlays are increased by roughly equal amounts, the Highway Trust Fund will remain financially sound. An alternative would be to increase authorizations without increasing taxes immediately, by drawing down the cash balance. While such an approach is feasible for a few years, it reduces the financial security of the Highway Trust Fund and ultimately forces the Congress to increase taxes or cut programs in some future year when economic conditions and highway needs are less certain than at present.

